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The Hon
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POST OFFICE DEPARTMENT,

OTTAWA, 12th December, 1887.

SIR,—In the report which I now have the honor to submit, as the result of the personal enquiries which I was desired by you to make into the working of the British Post Office, I act in conformity with your instructions in confining my remarks to the financial administration of that Department.

With the exception of a few days employed in visiting Paris, and in correspondence with the French Department resulting in modifications of the regulations governing Money Order exchange with that country, which will be advantageous to persons in Canada receiving remittances from France by means of Money Order, I devoted three months to a close, and, as far as circumstances permitted, exhaustive examination of the British system of financial accounts. While most of this time was spent in London, a small portion was devoted to a visit to Edinburgh for the purpose of examining the management of the Provincial postal establishments. The Irish establishment being on the same footing as that in Scotland, a visit to Dublin was unnecessary.

I consider it my first duty to put on record the courtesy and assistance extended to me by all the officers of the British Department whom I had occasion to meet.

A subsequent visit to Washington, made by your direction, gave me an opportunity of examining the methods of financial accounting, employed in the United States Postal Department. What I observed there confirmed, generally, the conclusions I had come to after a study of the English system. At Washington, as elsewhere, every possible assistance was given to me.

Bearing in mind that the Canadian Post Office is running in much the same lines as in the year 1851, * when released from Imperial and placed under Provincial control, whilst the British Post Office, during the thirty-six years which have elapsed, has made important changes in the manner of keeping its accounts, necessitated not only by the rapid expansion of the postal service itself, but by the vast additions, principally in recent years, to the range of its affiliated services, now embracing Money Orders, Savings Banks, Annuities, Life Insurance, Government Stock Investments, Telegraphs, Parcel Post, Postal Orders, the collection of

* There were, prior to that year, in British North America, five distinct Imperial Post Office establishments, i. e. Nova Scotia, New Brunswick, Prince Edward Island, the United Provinces of Upper and Lower Canada, and British Columbia. These are now (1887) absorbed in one system, embracing the whole Dominion.

The Honorable,

A. W. McLELAN,

Postmaster General,

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certain branches of Inland Revenue, and payment of Army Pensions, I conducted my examination of the British system with the object of seeing in what respects the Canadian Post Office could advantageously adopt present British methods.

My examination extended to the financial relations of the Post Office towards Parliament and the Treasury in respect of both revenue and expenditure, and to the manner of keeping the financial accounts both general and of the principal Branches named above, for purposes of audit. In what follows I confine myself strictly to points which have a practical bearing on Canadian usage. The fact that my report, to be intelligible, or useful hereafter (as I hope it may be) to other officers of the Department, and if, especially, to be the framework for any measure of reconstruction, must go very much into detail, supplies sufficient reason for not burdening it with matters which, however interesting, would be merely descriptive and not susceptible of any practical application in Canada. I exclude also all references to the internal administration of the Money Order and Savings Bank Branches of the Department, although my enquiries in those directions occupied several weeks with results which, while valuable, concern mere details of management and can be applied without being specially reported on.

It will be well perhaps that my report should deal as far as possible with general principles, and, if necessary, in appendix form, with such matters of detail as may require fuller illustration. It will also be convenient to treat the two questions of receipts and expenditure as much as possible apart, although there are between the two, as will be perceived later, points of contact in English practice which render them in a measure inseparable.

It may be as well to explain at the outset the difference between the two terms, **Post Office "Receipts"** and **Post Office Revenue.** "Revenue" is what the Post Office service earns for the Treasury. "Receipts" are what Postmasters have to account for to the Postmaster-General, embracing not only the revenue which they are the agents for collecting, but Money Order and Savings Bank moneys in transit through their hands, also such further sums as may be supplied them by the Department to enable them to carry on these last mentioned services. For example, in Canada the Post Office *Revenue* is only \$2,500,000, while the *Receipts* amount to \$35,830,000, and it is this last sum for which the Department has to see that Postmasters account. The machinery for doing this has to go far beyond what would be necessary were the collection of mere revenue the sole object. Again there is a difference between "Revenue" and "Net produce of the Revenue," a difference respected in England, although no fixed principle obtains in Canada on the subject. This will be illustrated hereafter.

To make clear wherein lies the difference between Canadian and British management of Postal Receipts, it becomes necessary to give an outline of Canadian practice, and in so doing to refer to certain of its

imperfections, thus foreshadowing the directions in which improved methods may be expected to suggest themselves.

RECEIPTS IN CANADA are—

1st. The proceeds of the sale of postage stamps, and receipts from postages generally, say \$2,500,000 per annum. Accounts, confined to this source of revenue, are sent by all Postmasters in Canada, say 7,500 in number, direct to the Accountant's Branch of the Department at Ottawa, a few monthly, but the majority quarterly. These receipts (less compensation and allowances, which are deducted by those offices not on the establishment) are remitted at the same intervals (*i.e.*, monthly or quarterly) by these 7,500 postmasters to the nearest Bank agency transacting Government business,-- Drafts for the amounts in favor of the Finance Department (Treasury) being thereupon sent by the Bank where deposited to the Post Office Department. Drafts, on receipt at the Department, are recorded for purpose of comparison later on with the postmasters' returns, and are then transmitted to the Finance Department. Receipts from sale of postage stamps pass, it will be seen, into the Treasury and out of the control of the Postmaster-General from the moment when deposited in the various Banks by postmasters.

2nd. The receipts by 950 of the same offices (being Money Order Offices) for issue of Money Orders and for commission thereon, together amounting to \$10,830,000 per annum.

3rd. Moneys supplied to the same 950 postmasters (through credits on Banks) to meet the requirements of Money Order and Savings Bank business, amounting to \$14,000,000 per annum.

4th. The receipts by those offices that are Savings Banks (numbering 450) from deposits in the Post Office Savings Bank, amounting to \$8,000,000 per annum.

The receipts from sources 2, 3 and 4, in all \$32,830,000 (less payments of Money Orders and of Savings Bank withdrawals, principally by those postmasters who, having no bank credits, necessarily use a portion of receipts are remitted by them *daily* to the nearest Bank agency, and thence to the Money Order Branch by draft in favor of the Finance Department on Money Order account. Cash Accounts, showing receipts, payments and remittances under heads 2, 3 and 4, are sent from all Money Order Offices in the Dominion direct to the Money Order Branch, Ottawa. The larger offices (about 60) send daily accounts, the remainder (890) weekly.

The latest measure taken by the Department, and the only one then needed to complete the centralization at Ottawa of financial responsibility and book-keeping, took place two years ago, when the control of British Columbia Money Order business was transferred from the Inspector at Victoria to the Department at Ottawa. This measure seemed to commend itself at the time, in that it tended to uniformity and placed the financial management of Money Order business in all the Provinces on the same footing, but I may here say that I soon afterwards learned to regard the change as not in the direction of satisfactory control.

There are thus, it will be seen, in the Canadian Department two separate systems of financial account with postmasters, one in respect of sale of Postage stamps and of Postal revenue, and the other in respect of Money Order and Savings Bank business. These two systems have to be recognized by postmasters and the Banks as entirely distinct from each other, separate forms of account, of bank draft, and indeed of every form in use, being necessary. The postmasters themselves of those offices that are Money Order Offices are, in a sense, and in effect, the accounting officers of two distinct Departments.

The treatment of the accounts rendered by postmasters under these two separate systems differs in the two Branches, the Accountant's and the Money Order. Whilst in the Money Order Branch is kept a ledger account with each postmaster, exhibiting in Dr. and Cr. shape the business at his office, and the balance in hand (if any) day by day or week by week, for a year, in the Accountant's Office the practice of keeping ledger accounts with postmasters was abandoned about thirty years ago—about 1857—the postmasters' accounts in respect of postal revenue being simply transcribed after examination into quarterly summaries. That this system of book-keeping, considered sufficient when the operations of the Post office were confined to the then small number of offices (1,500) in what are now the Provinces of Ontario and Quebec, when it was possible for personal vigilance on the part of superior officers to do much towards checking the growth of balances in postmasters' hands, and seeing that balances due by retiring or defaulting postmasters did not pass out of sight, is not the best adapted to the Canadian service thirty years later, is not surprising. Its chief defect lies in its failure to provide a means, or such a means as sound book-keeping would approve, of keeping touch of overdue balances. In the Money Order Branch, when a postmaster goes out of office, the continuous Dr. and Cr. account under the heading of that office compels some visible disposition to be made of balances overdue or in default. The practice has been to transfer such balances to a "Suspense Account" in the general ledger, there to remain subject to inspection from time to time by the head of the Branch and brought to the notice of the Postmaster-General until either paid up, or wiped out as losses. The use of a Suspense Account for the absorption of overdue balances I have always felt to be objectionable, and I am glad to say that British practice suggests a more satisfactory method of dealing with such items.

Another defect in the system of collecting Postal revenue, and one of which the Department has been increasingly conscious with the growth, year by year, in the volume of business, exists in the length of the intervals at which Postmasters' Returns and remittances are made, formerly quarterly from all offices, now monthly as regards 290 offices, and quarterly in respect of 7,210, the remainder. Not only do public moneys to an excessive amount thus lie in Postmasters' hands, but such are the facilities, inseparable from a quarterly system of accounting, for evading prompt remittance, that it cannot be doubted that the official

statements of the revenue balances in Postmasters' hands, while correct enough at the date of compilation (from two to three months after the close of the quarter) fall far short of exhibiting the true balances held by Postmasters at the date to which the returns relate.

I have described the first item of "Receipts" in the Canadian Post Office, as the proceeds of the sale of postage stamps. Whilst this is in a measure true, it obscures what, in a postmaster's Monthly or Quarterly Revenue Return *really* has to be checked or verified by the Accountant's Office, as the principal charge against the postmaster. A postmaster's "Receipts," for which he is primarily responsible, are the postage stamps supplied to him by the Department, and whilst he is called upon to remit the value only of what he sells, the Dr. charge in his account ought to be the value of the stamps supplied to him; at present this is not so. It is true that the Accountant's Office is furnished by the Stamp Branch with statements of postage stamps supplied to postmasters, and that against these, postmasters' own statements are checked, but the check is a mere visual one, and, owing to the fact that the Dr. entry in postmasters' returns is, *not* the stamps received from the Department, but the stamps sold, there is an absence of that direct proof which the quarterly summaries ought to afford, that postmasters in the aggregate charge themselves with all the stamps issued by the Stamp Branch, and that countercheck on the Stamp Branch itself, which ought to be found in the final summaries in the Accountant's Branch is arrived at by inconclusive methods.

This seems to be the proper place for inviting attention to what, in Canada, makes the duty of checking postmasters' remittances to the Department most difficult to deal with. I speak with particular knowledge of remittances to the Money Order Branch, but what I say applies equally to all post office remittances. This difficulty lies in the fact that postmasters' returns are unaccompanied by any deposit receipt from the Bank, or other voucher establishing that the alleged deposits or remittances had been made. The Department depends on the Banks to send the necessary drafts. Occasionally a Bank is dilatory; it may happen again that the remittance, consisting in part of an unendorsed cheque, is in a shape which the Bank cannot accept; very frequently it transpires, on enquiry, that the remittances have not been made on the day named, owing (it may be alleged) to forgetfulness, and too often it happens that a postmaster makes a deliberately false statement: this is criminal under the Audit Act, but the intention is exceedingly difficult to prove, and what is known to have been falsely alleged for the purpose of cloaking default, has often to be condoned. The present method unquestionably lends itself to and promotes irregularities. In this absence of close relation between the accounts under treatment day by day and the bank drafts representing the remittances claimed in the

* It is obvious, moreover, that to be complete, a verification of the unissued stamps in stock in the Stamp Branch, such as is now made once a quarter, should include a subsequent comparison between the Statement of Stamps issued as per Stamp Office records, and the Statement of Stamps acknowledged by Postmasters, as taken from the Accountant's Quarterly Summaries. Such a comparison is now impossible.

accounts, lies the most troublesome feature in the administration of the Money Order Branch, and the difficulties are magnified in no small degree when the offices concerned are in distant Provinces. Discrepancies arising in this way are very numerous, they are beyond mere mechanical or routine treatment, for it is impossible to know what is behind, and the resulting anxieties to the principal officers are excessive, and constitute an undue tax upon both energies and private hours, to the prejudice of duties of general supervision. I have long felt that present arrangements, in regard to remittances, could not continue. These drawbacks to prompt verification of remittances do not manifest themselves so much in the Accountant's Branch, where postmasters' accounts are received and examined only monthly or quarterly, but that is because there does not exist there the same confronting of statement with fact which necessarily prevails in the Money Order Branch, whose postmasters are required to remit daily.

In matters of inspection of Canadian Post Offices which are Money Order Offices, the distinction maintained between Money Order and Postal Revenue funds, operates most disadvantageously. This I need do no more than put on record, because it is well known to the principal officers of the Department.

It will be seen, from the foregoing, what were some of the questions of financial administration, whose solution it was my duty to seek, in a study of English practice.

In explaining the **methods of the British Post Office in dealing with Postmasters' Receipts**, I shall confine myself to the same four heads used in illustrating the Canadian system, viz.: 1. Sale of Stamps; 2. Money Order Receipts; 3. Cash from Department; 4. Savings Bank Deposits.

It may be well to say that in the British Department, all cash responsibility as between postmasters and the Department, rests with the "Receiver and Accountant General" of the Department, under whom are united the duties of the Accountant (as in Canada) in a measure the functions of the Receiver General (as in Canada) and the greater part of the responsibilities of the Superintendent of the Money Order Branch, the Money Order Branch itself falling into the same position that the Savings Bank occupies in England and Canada alike, in having no cash responsibility for the collection of receipts from postmasters.

There are in the United Kingdom 17,418 post offices, distributed as follows:—

	M.O. and Sav. B. Offices.	Not M.O. or Sav. B. Offices.
In England.....	6,875	6,040
In Scotland.....	876	1,025
In Ireland.....	822	1,775
	<u>*8,573</u>	<u>8,840</u>

*15 of these are head offices, on the voted establishment,—or what in Canada would be termed city offices.

The keynotes to the British system of financial accounting may be said to be three :—

1st. The degrading, so to speak, of all post offices not Money Order and Savings Bank Offices, and their entire and absolute removal from standing, as accounting offices.

2nd. *De-centralization*,—being the delegation to chief offices in Edinburgh and Dublin of the duties of receiving and treating the Scotch and Irish *Cash** accounts and remittances, English cash accounts and remittances only coming to London.

3rd. A *Daily Cash Account* and remittance from every post office being a Money Order Office, the account being *accompanied* by its remittance in coin or bank receipt.

It may be as well to say briefly, and then dismiss the subject for the present, how the Postmasters of the 8,840 post offices not being Money Order Offices—*i.e.* more than one-half the total number of post offices—account for their receipts. Not being Money Order or Savings Bank officers their receipts are for sale of postage stamps only, and they buy their stamps as they require them, paying for them in cash, at their respective head offices, or post towns. The postmasters at these 8,840 places are thus, as far as collection of postal revenue goes, mere stamp vendors. They are paid by salary, as will appear in the proper place. On the establishment of an office of this class, the postmaster is given a limited supply of stamps without payment. This constitutes his "stock in trade," and when renewals are necessary he has to send the money to his nearest head office and pay for the stamps. So long as he remains in office he is not called upon to pay for his original stock; against it the Department holds his bond, and loss from an office of this class is unknown. For purposes of account, as well as of inspection in respect of accounts, these 8,840 offices are virtually extinguished.

In reply to my inquiries regarding what I have described as "*De-centralization*," also as to the special reasons for the maintenance of chief offices at Edinburgh and Dublin, and whether concession to local sentiment, or jealousy in matters of appointments, had anything to do with it, I was assured that while some such arguments would doubtless be used against the discontinuance of the Edinburgh and Dublin establishments were the post office to attempt a measure of absolute centralization at London, it was just as certain on the other hand that were the abolition of the Scotch and Irish head offices suggested from any other source, the Post Office authorities would be the first to oppose a change, as under no other method of administration could the system of

*It is necessary to emphasize that it is the bringing of Scotch and Irish postmasters under the immediate control and supervision of the head offices at Edinburgh and Dublin, in respect of their *cash & remittances*, which constitutes a marked feature of British practice. The Scotch or Irish Money Order accounts are likewise dealt with at Edinburgh and Dublin, while the Savings Bank accounts, telegraph accounts, postal orders and all other subsidiary accounts from all three kingdoms are dealt with at London. It is convenience, rather than the recognition of any principle, which leads to the Provincial Money Order accounts being thus exceptionally treated, the relative cheapness of office accommodation in Edinburgh and Dublin as compared with London, having probably much to do with it, and it might be shown that, to some extent, correct principles in this matter are sacrificed to expediency.

daily cash accounts with postmasters, and effectual control generally, be maintained.

Of the 8,573 offices in the United Kingdom, which render accounts, being the only ones which do so,—

6,875	send a daily cash account to London,
876	do do Edinburgh,
822	do do Dublin.

The processes being alike, it will be sufficient, for purposes of illustration, to treat of the 6,875 offices in England only.

Only *one* Cash account (not two as in Canada) is rendered by the postmasters of these offices. It is a daily Return, and embraces as charges:—The postage stamps (if any) received that day from London, cash remittances from London, and the total Money Order and Savings Bank receipts of the day, as per separate and detailed Returns furnished independently to those two Branches.

The Cr. items are the totals of Money Order and Savings Bank payments (as per detailed Returns and vouchers sent to those Branches) and remittances on that day to the Department. Then follows the "Balance in hand," and this, it must be noted, is made to embrace not only the cash in hand, but unsold postage stamps as well, thus emphasizing every day the *cash* liability of the Postmaster in respect of stamps in his possession. This form of account, and the shape which the Department ledger takes, in following it, supplies that direct check as between Postmasters and the Branch or Department issuing the stamps, which has been remarked upon as wanting in Canada.

Postmasters' remittances take two shapes:—

1st. If there is in the place the agency of any Bank having an office in London, the postmaster lodges the amount in the Bank to the credit of the Postmaster-General, and receives in return either an Accountable Receipt or a Draft at seven, fourteen or twenty-one days. If there are two Banks in the place, competition enables the Postmaster to deposit to better advantage at one than the other. Bills at twenty-one days are now being discouraged, and no new arrangements are now permitted on those terms, so that seven or fourteen days' interest may be said to be the compensation to the Banks for services rendered. The Receipt or Draft is sent by the Postmaster *with* his daily Cash Account.

2nd. From other places the remittances to London are in cash, *i. e.* gold (silver and copper are not remitted) cheques, or Receiver and Accountant General's warrants*, and there seems to be a tacit encouragement to Postmasters to send cheques rather than coin, on account of the loss on light gold. The loss from this source nevertheless amounts to about £3,500 yearly. The practice of allowing Postmasters to substitute cheques for the actual money received from the public is not productive of the excessive friction which compels the adoption of the very opposite rule in Canada. In both countries the Postmaster is responsible for such paper if forming

*What these warrants are, and how they enter into the amount deposited in the Bank of England daily, will be explained later.

part of a remittance, but in England when a remittance or part of it has to be returned, the facts are patent to the officers engaged in checking the Postmaster's Return in which credit is claimed for the remittance. In Canada, on the other hand, the rejection is by a bank in some distant town, perhaps many hundred, perhaps 2,000, miles distant, and all that the Ottawa Department knows is that, whereas on the one hand the Postmaster claims to have remitted "so much," either *no* Bank Draft at all comes to hand, or one for a smaller amount, and no explanation in either case. Hence the anxieties inseparable from present Canadian practice, already dwelt upon,—page 5.

The Remittances received at the London office each day are deposited by the Receiver and Accountant General's Department in the Bank of England the same afternoon, to the Cr. of the Postmaster-General.

In addition to the matter of the channel through which Bank Drafts reach the Department, two important differences will have been seen to exist between English and Canadian methods in collection of "Receipts."

1. In England all Receipts, Postal, Money Order and Savings Bank, are treated in *one* Cash Account, not two as in Canada,

2. In England Receipts are deposited to the Cr. of the *Postmaster General* and not (as in Canada) to the Cr. of the Treasury direct.

The argument in favor of exacting daily accounts from all accounting offices is that, in view of the contracted area of the Kingdom, and of the fact that accounts from all offices can reach London the morning following their date, default need never be allowed to go beyond, at most, two days' operations. Further than this, so enormous is the sum which the Department has to provide throughout the Kingdom for payment of Money Orders, Postal Notes, Savings Bank Warrants, &c., that, without the knowledge close up to date, which a daily Return affords—of what funds a Postmaster holds, while the supplying of funds to Provincial Offices would have to go on, there would be practical abandonment of checks against transmission of excessive amounts, and the rendering of Accounts at less frequent intervals would thus, it is claimed, invite a double risk.

In case of the non-receipt of a postmaster's Cash Account at London, the telegraph is used, and, if necessary, the local Surveyor advised, or possibly the Postmaster of the head office of the district. There are in England eleven Surveyors, each with a few clerks always engaged in inspection duty, and 630 Head Postmasters, who, with their staffs, can also be used advantageously if necessary. The average number of sub-offices and town-receiving offices, grouped under the supervision of head offices, is about ten. It will be seen, therefore, how numerous and how conveniently distributed are the agencies at command of the London office if delinquencies be suspected at any point. Default, so far as it arises from failure to transmit accounts and balances, need not be permitted to go, speaking generally, beyond the second day*.

*Fraud is possible in Savings Bank business, or in Money Order business, by falsification of records or vouchers, just as in Canada, and takes, I find on enquiry, much the same shapes that the Canadian office is familiar with, but against delinquencies of that character, no system of account can guard.

For inspection of the 680 head offices themselves, the Surveyors and their clerks are available. It often happens that an experienced clerk from London is sent on inspection duty, and the Receiver and Accountant General himself, or one of his principal officers, from time to time, makes test inspections of a few of the larger offices, such as Liverpool or Birmingham. As regards frequency of inspection, every accounting office is understood to be visited by a Surveyor or Surveyor's clerk twice a year, but as a matter of fact inspections are not in all cases so frequent. It must be remembered, however, that in England independent inspection of an office is not the valuable auxiliary to Departmental checks and vigilance, which it is, or ought to be, in Canada, because the daily account to London and the fact that the cash remittance accompanies it, make the London Department its own detective.

To return to the subject of the 6,875 cash accounts received at London daily, these accounts form the basis of ledgers containing a separate ledger account with each postmaster, much in the same shape as the ledger accounts kept in the Money Order Branch at Ottawa, in respect of Canadian Money Order and Savings Bank business, and framed so as to contain the business of one quarter. In regard to the life of the ledger, I may here say that the duration of the Canadian Ledger, for one year, is accompanied by advantages which, except for sufficient reason, it were better not to forego.

In the Ledger in use in London, the principal Dr. item is (as it is in the form of Daily Account itself) the value of the *Stamps received* from London, not, as in the Canadian summaries based on Postmasters' revenue accounts, the stamps sold. The advantage of exhibiting this item in the shape in which it appears in the British accounts I have already spoken of, in referring to what the present Canadian method fails, except indirectly, to substantiate.

The continuous record, day by day, of a postmaster's transactions, which his ledger account presents to the eye, reveals the stealthy growth of unauthorized balances. The absence of such a record has been mentioned in connection with the present treatment of Postal Revenue Accounts in Canada. The treatment in London, of balances due by postmasters going out of office is at once simple and effective. The final account of such a postmaster is transferred to a special folio, or space, in a supplementary ledger. This ledger is not treated as "dormant" but takes its place among the other ledgers for regular quarterly summarizing, this system affording sufficient guarantee of balances under this head not being lost sight of. Further, this is one of the records which the officers of the Auditor General's Department examine when applying their test audit to the Postal Revenue Accounts, so that no uncollected balance can either remain in this ledger, or on the other hand be wiped out as a loss, without the Auditor General's knowledge, because, in the first place the supplementary ledger is, as already stated, examined by his officers, and, secondly, anticipated losses being provided for by Parliamentary vote,

the funds to cover any loss have to come out of "Expenditure," the circumstance thus coming before the Auditor General in a second shape.

To proceed from the postmaster's individual accounts to the *General Accounts* of the Department in respect of receipts and revenue, these are necessarily built upon the postmaster's ledgers. All cash transactions, whether revenue (*i. e.* sales of Postage Stamps and commission on Money Orders) or Money Order and Savings Bank funds (the two last being but trust funds in temporary transit through the Post Office), being embodied in one general account, and the balances held by postmasters consisting of all three sources of receipt, the question suggests itself,—how does the Department analyze the results at the end of the month or quarter, and establish what portion of receipts is applicable to "Revenue," (and as such to be paid over to the Treasury), what to Money Order and what to Savings Bank? Nothing is more simple: The same operation is done in Canada every month in respect of the separation of Savings Bank from Money Order receipts in the Money Order ledgers. As for any attempt in Canada to pronounce how much of the *Balances* retained by postmasters are Savings Bank moneys and how much Money Order, it would be impracticable. The balances are simply regarded as so much held by postmasters on account of the Money Order Branch. In like manner, in England, the postal revenue is arrived at by deducting from the total stamps supplied to Postmasters, the stamps remaining in their hands, the difference being the stamps sold. This amount, plus the Money Order commission and casual revenue, is paid over to the Treasury every four or five days in even sums of £100,000, and a general account of each month's revenue is furnished to the Treasury so soon as the exact booked revenue of the Department is ascertained, *i. e.*, about two months afterwards.

Whether postmasters pay in all their "revenue" or whether any part of the balances they retain arises from sale of stamps or not, is left out of the question, the balances in postmasters' hands at the end of the month are "so much," held to meet Post Office requirements, no matter what, and are regarded in that general sense, as accountable balances in the hands of the *Postmaster-General*. I go into this point here, because, in considering a like amalgamation of cash accounts in regard to Canada, a difficulty presents itself in the Canadian Post Office Act, section 78, paragraph 2, under which the Postmaster-General's Report to Parliament is required to exhibit the balance of *Revenue* remaining *due by Postmasters* at the end of the fiscal year. This clause would have to be amended.

Remittances from postmasters, in the various shapes in which made as already explained, are deposited in the Bank of England each afternoon to the credit of the *Postmaster General*. There is absolute agreement* between the morning's receipts and the afternoon's deposits. Portion of the so-called cash receipts being in "Receiver and Accoun-

* Disturbed only by the item of "accountable receipts" and 7 and 14 days' drafts, but that is a matter of detail and of ready adjustment, and does not concern the immediate objects of comparison.

tant General's warrants," *i. e.*, warrants for salaries, mail service, &c., cashed by postmasters and sent in as part of their remittances, the total of such warrants is arrived at by suitable form of schedule, and a single cheque on the Bank of England against "Expenditure" is substituted for purposes of deposit. These warrants will be referred to again under the head of "Expenditure," so that the only point to be noticed here is that Post Office receipts instead of passing into the Treasury at once, as in Canada, are deposited in the Bank of England to the credit of the Postmaster General, temporarily used for purposes of postal expenditure, and so soon as the balance in the bank reaches £100,000, transferred to the Treasury. In explanation of the expression "temporarily used for expenditure," I may here say that advances for expenditure are recovered from the Treasury out of Parliamentary vote, once a month, thus replacing the post office moneys and restoring them to the original figures at which they would have stood, had the cheques referred to not been drawn.

In considering the applicability of English methods to Canada, there would be no gain in substituting for the present direct deposit to the credit of the Treasury (Finance Department), a system of deposit to the credit of the Postmaster-General. In fact the Canadian system, besides being perhaps preferable as a matter of principle, happens to lend itself very conveniently to certain features in the English mode of "Expenditure," to which I shall have to draw special attention under that head, as suggesting desirable alterations in Canadian practice.

For purposes of illustrating a general principle, I have stated that the entire Post Office revenue is paid over to the Treasury. This is not strictly the case. Before transfer to the Treasury certain payments are made out of Revenue, and thus arises the difference, mentioned at the beginning of this Report, between "Revenue" and "Net produce of the Revenue." These payments are not on voted service or expenditure account, and are treated and logically so it would seem, as "deductions from revenue."

The principal payments are :—

1. Payment to Bank of England for losses on light gold.
2. The proportion of receipts on Parcel Post business accruing to the Railway Companies.
3. The value of Postage Stamps sold by the Post Office but used for Inland Revenue purposes, and refunded to Inland Revenue Department.
4. The balances due to other countries for ocean and transit postage.
5. Proportion of fees on Money Order business earned by other countries.
6. The value of Postage Stamps redeemed from the public.
7. Loss by Exchange on Foreign or Colonial Money Order business and remittances.
- (8). While losses by default and fraud are paid out of "Expenditure," and are not treated as deductions from Revenue.

Heads 1, 2 and 3 are not of present interest, but it is interesting to note the practice in Canada, in respect of the remaining items.

4. Balances of transit rates due to other countries,—treated as "*Expenditure*," and estimated for and voted on by Parliament, although not an expenditure for any "service," and an item, it may be said, quite beyond Parliamentary control.
5. Proportion of Money Order fees earned by and accruing to other countries, treated, as in England, as a "deduction from revenue."
6. The value of Postage Stamps redeemed and destroyed treated as "*Expenditure*," and estimated for among miscellaneous charges.
7. Loss by Exchange on Foreign and Colonial remittances, treated, as in England, as a "deduction from revenue," while
- (8). Losses by default, so scrupulously treated in England as *Expenditure*, and estimated for in that country, and reviewed by the Auditor General, are treated in the three financial Branches in Canada in as many different ways.

In the Savings Bank, losses are replaced by Parliamentary vote.

In the Money Order Branch, losses appear once a year as "deductions from revenue."

In the Postal Revenue, losses seem to be carried under the general head of "Balances due by Postmasters." In 1882 the sum of \$34,291 00 was written off and deducted from this item by order of Parliament, but since then whatever losses have accrued through default, robbery or otherwise, do not appear in the public accounts.

The general view taken by the British Post Office of these "deductions from revenue" is this:—That, where losses arise which are inseparable from the business, or from the handling of revenue, such as from light gold, fluctuation in exchange with other countries, and where the revenue taken in from the public is partly for the Post Office and partly in trust for other parties, as, for example, the Parcel Post receipts, 55 per cent. of which is transferred to the railway companies, it would be delusive to regard the amounts either as Revenue on the one hand, or as *Expenditure* on the other; but that where the losses result from fraud, robbery, default, or from causes which may suggest defective management, Parliament and the Auditor General should have the opportunity of expressing an opinion upon them.

The Auditor General in England does not audit the books of the Money Order and Savings Bank Departments, save in respect of the *totals* relating to those services, as appearing in Postmasters' Cash Accounts and the ledgers of the Receiver and Accountant General's Department.

It is admitted that any **Audit of Receipts** must merely be in the direction of seeing that the system of accounts is generally satisfactory, and that sufficient checks are applied. Much beyond this audit cannot well go, and, what is done is this: Once every year at least, officers of the

Auditor General's Department are appointed to visit the General Post Office, and they, selecting a certain day's "Receipts" as the basis, then require to be exhibited to them every account, document and ledger item entering into that day's work, and going to make up those figures. I may here quote the few brief words in which the Auditor General disposes of this subject in the latest report to Parliament: "The Account in respect of Postal Revenue has been subjected to a test examination with generally satisfactory results, and the Lords of the Treasury and the Postmaster-General have been informed accordingly."

Funds are supplied to Postmasters in England generally for the same reasons as in Canada, viz., to enable them to meet payments on Money Order and Savings Bank account. Funds are further supplied, when necessary, to the 680 head offices for payment of the salaries of the staffs at those places, of postmasters of the neighbouring sub-offices, and of rural postmen. Postmasters' requirements become known to the Receiver and Accountant General's Department by advice each forenoon from the Savings Bank Department, of Savings Bank warrants about to issue, by written requisitions from postmasters themselves and by telegraph. This is the proper place for saying that all postmasters are allowed to retain a "Reserve Balance." This varies, according to the business of the office, from £10 to £3,000, and its object is that the public may not suffer unduly from delay in cashing Money Orders. In the language of the instructions, the "Postmaster is allowed to hold an official balance on hand solely to enable him to meet the requirements of the public service, and he must on no account apply any portion of it, for however short a period to his own private use." The use made of the Banks in Canada in the payment of Money Orders fortunately renders any such provision unnecessary there, at any rate as regards the principal and more active paying offices. In any case the plan would not suit the methods of Canadian postmasters, nor indeed the ordinary business customs of the country. The "Reserve Balance" might appear regularly on paper but it would rarely be found in the official till.

To proceed with the subject of Remittances to postmasters: When it is satisfactorily established by examination, if necessary, of the postmaster's Cash Account of the previous day, that over and above his "Official Reserve," the postmaster is in need of money, one of various methods is adopted to supply his requirements:—

He may be instructed by telegraph to retain "so much" of the present day's cash (the telegraph is freely used, free of cost of course). The postmaster of the nearest head office may be instructed by telegraph to send the cash. The cash may be sent direct from the Receiver and Accountant General's Office; or if there is in the place a Bank having an office in London, a cheque on the Bank of England for the amount (or total amount if remittances have to be sent to a number of places) is sent to the London bank, with a request that the country agent be instructed to place the amount at the disposal of the postmaster. The last-mentioned practice is much the same as that suggested by myself

to the Auditor General in Canada some time ago as a substitute for the present unsatisfactory method of supplying certain classes of postmasters with funds, a method involving the intervention of the Finance Department and Auditor General, a duplication of work, and, generally speaking, a most circuitous process, and one having at times results anything but creditable to Departmental administration.

The **issue of Postage Stamps** is managed entirely by the officers of the Inland Revenue Department on requisitions from postmasters. The Inland Revenue Department has means of knowing what stock of stamps each office is allowed to carry.

Daily statements are sent by the Inland Revenue Department to the Receiver and Accountant General's Department of the post office, of stamps supplied, and from these statements are checked the Dr. entries in the postmaster's accounts of the following day. Check and counter-check thus exist between the Post Office and the Inland Revenue Department as regards the total issue of stamps for which postmasters have to account.

Ordinary **stamp vendors** are appointed by the Inland Revenue Department, on nomination by the Post Office, on the grounds of public convenience, just as in Canada. These vendors are supplied directly from the Inland Revenue Department on payment for the stamps in advance, without discount. Vendors get no compensation whatever beyond such indirect benefit as may accrue from customers being attracted to their places of business.

The manner of securing correct returns of the **postage on unpaid and insufficiently prepaid matter** is so linked with the mode in which the general mail service is carried on that anything said about it cannot be taken as more than merely suggestive. It is just possible that there might be found some advantage in applying a like measure, within certain limits, in Canada. In England, as in Canada, the proper accounting for postage on unpaid matter posted at an office or received from abroad, for immediate local delivery, depends entirely on the integrity of the postmaster of that office. The plan by which charges under this item raised against other offices are brought to account, turns on the fact that all mail matter passes through, or is billed on, one or another of 630 *head offices** which become the centres for distribution in their districts. All unpaid or insufficiently prepaid matter is charged in letter bills against head offices. These head offices send to the Department at London all the letter bills received by them daily, with postage stamps affixed to the value of the unpaid postage charged against them. Charges raised by Head Postmasters against sub-offices in mailing or re-mailing such matter, are met by a remittance of the amount in cash from the sub-office to the despatching head office.

There is in the London Department a staff of four clerks whose duty it is to see that every Head Postmaster sends daily to London the letter

* The few exceptions which exist are readily made to fall under the general treatment.

bills received at his office—it is known how many bills should come from each office,—and the postage stamps affixed to the letter bills are checked against the unpaid charges. These four clerks are sufficient to establish that the postage on insufficiently prepaid matter in the whole of England, is duly accounted for. There are, it will be seen, no accounts whatever. The amount enters into the revenue in the shape of the money paid for the stamps. The simplicity and inexpensiveness of the process, with the effectual way in which it accomplishes its objects, are striking merits.

Having thus described the leading features of the British system of Postal Accounts, in respect of receipts and revenue, it may be right that I should make some observations as to what Canada has to learn from British financial practice. One thing no enquiries in England were needed to demonstrate, and that is the waste of force in Canada in maintaining two separate cash accounts, and two separate systems of financial supervision in respect of the postmasters of the 950 Money Order offices. Four ledger clerks keep the ledger accounts of these 950 offices in the Canadian Money Order Branch, and with six or seven others engaged in general matters of account with the Banks, &c., form the staff employed in account duties. With very little assistance, perhaps one additional clerk (for the issue of stamps to these offices would have to pass through the same ledgers), the revenue accounts of the same 950 offices could be kept in the Money Order Branch without trouble. The postal revenue of these 950 offices is \$1,957,000 out of a total of \$2,500,000, or nearly four-fifths of the whole. The practical question becomes: What is the most economical and effectual mode of collecting the remaining \$543,000 from the other 6,550 offices? Three courses seem open: Either preserve the present seemingly imperfect system of account in the Accountant's Branch, which would be relatively more expensive than at present, in view of the much smaller revenue to be collected, improve it by reverting to the plan discontinued 30 years ago, of keeping a ledger account with each postmaster, which would make it far more costly than at present in clerical force and books; or take the step suggested by English example and "degrade" the 6,550 non-Money Order offices from their position as accounting offices altogether.

This last measure would so revolutionize the Department that the proposition seems, when first stated, almost too sweeping for acceptance. Objection might be urged to it on the score of principle, in that it might be held to be the duty of the Department, no matter at what risk to the revenue, to keep country Post Offices supplied with stamps for use of the public. In England no office of this class can be more than a very few miles from the nearest Money Order office, *i. e.*, its base of supplies. In Canada, on the other hand, there are many large and thriving places, many miles from the nearest Money Order office, to which, for various reasons, the Money Order system has not been extended, where serious inconvenience to the public would result from the postmaster allowing his stock of stamps to become exhausted. This reasoning, however, does

not take into account that a postmaster, unable, or not choosing, to send money for stamps, would *ipso facto* declare himself a public defaulter, for the money he would be expected to send would be, not his own, but the proceeds of the sale of his "Stock in trade," previously supplied him on credit by the Department. I am inclined to think that there would be few difficulties in carrying out the scheme; that, whereas now, if postmasters of country offices fail to remit their balances, their indebtedness to the Department and the public in the abstract is only "so much" larger, the same officers would then be conscious of responsibility to a community nearer home, in the shape of their immediate neighbours, a public for whose opinion they would be more likely to have respect, than for unseen obligations hidden in the Department Ledgers at Ottawa. It must be remembered that the Department, in the case of the Branch offices in cities, has already admitted the principle of the abolition of accounts, and of the purchase of stamps in advance by postmasters, and in these instances has not even supplied the postmasters with a "stock in trade" on credit.

Perhaps a middle course may suggest itself, and this would at all events have the advantage of applying to the measure the test of experience, and that would be to retain a selected number of the larger offices (not now Money Order Offices) as accounting offices, add them to the ledgers, and abolish the remainder. The penalty of bonds generally would be smaller, and the responsibilities of sureties more readily measured. I need hardly add how much more frequent and thorough the financial inspection of Money Order Offices might be, were Inspectors released from all such duties in respect of the non-accounting offices.

A measure of this character would result in the transfer of the Money Order Ledgers and ten or eleven clerks to the control of the Accountant, the placing of the Money Order Branch on a lower level of responsibility, and the severing of present financial relations between that Branch and the Savings Bank. The Accountant's Branch would then do for both those Branches, what the Money Order Branch now does for the Savings Bank. A general financial control over the two last named Branches, in order to harmonious working, would properly rest with the Accountant, also, perhaps, some measure of administrative control in respect of the clerical force.

I do not think it would be necessary to exact daily accounts from a larger number of Money Order offices than at present, but the daily remittance of surplus funds would have to be maintained, and the daily remittances would embrace, it must be noticed, not only surplus Money Order funds, as at present, but the proceeds of daily sales of postage stamps, a very important object to attain.

This brings me to two suggestions which, while they cannot be presented together, I should like to be considered together. They relate, 1st, to what I have termed "De-centralization," and 2nd, the serious disabilities under which the financial branches of the Department now

labor, because of the channel through which bank drafts for deposits reach the Department.

I mentioned, in a former part of this report, the disappointment felt in the result of the step (then thought to be a progressive one) of causing the Postmasters' Money Order Returns and Money Order cash accounts from British Columbia to come direct to Ottawa. I think that this policy should be partly reversed, that the Money Order Returns (and Saving Bank Returns when Saving Bank business shall be established in that Province) should continue to come to Ottawa, but that the treatment of Postmasters' Cash Accounts in respect of all receipts (Revenue, Money Order and Savings Bank) should be restored to the Inspector at Victoria. No addition to the Inspector's staff could possibly be necessary (supposing his staff to be at the strength it was two years ago). There are only twenty-two Money Order Offices in British Columbia, and freed from all the details of Money Order business such as formerly had to be checked, the duties would be extremely light, perhaps one-quarter of what they were before. The visits to his Money Order Offices, by an Inspector, armed with exact information from the ledgers in his own office, of how Postmasters stand, would be immensely more valuable and beneficial than at present.

I would strongly recommend, and for the same reasons, that the policy of de-centralization be carried further and that the same measure be applied to Manitoba (including the North-West) to the three Maritime Provinces for which perhaps one office at St. John would suffice, leaving to the Department at Ottawa the immediate financial control of offices in Ontario and Quebec only, and, of course, the chief supervision of the Provincial sub-offices. An objection may be made on the score of expense, but without reason. I have said that it requires four ledger clerks and about six or seven others to manage the cash accounts of 950 Money Order offices now, under conditions the most unfavorable to economical and satisfactory check. The only question is this: To what points can these eleven clerks be distributed to the best advantage, for exercising the best possible control over the Money Order Offices scattered between the Atlantic and Pacific. Every clerk placed on duty elsewhere would simply mean one clerk less at Ottawa, and the relief at Ottawa would be in even greater proportion, for it would be from the troublesome work and anxieties involved in the distant errors and delinquencies. The loss of power consequent on breaking up an united body engaged in like duties, would be fully compensated for by the greater ease with which the same, and better, results could be achieved. One clerk would be ample for Manitoba and the North-West. Two, or at most three, would suffice at St. John, leaving seven or eight at Ottawa. I feel that, in recommending this measure, I disturb what I may call the unspoken traditions of the Department. The centralization of all authority and control at Ottawa, the result of successive accessions to Confederation, has, it must be admitted, led to a congested condition of affairs at Ottawa, and consequent on a diminished sense of responsibility on the

part of officers in the Outside Service, an impaired efficiency of the whole. It cannot seriously be claimed that faithful devotion to public duty, and conscientious supervision of a trust, can be looked for only at Ottawa. My own experience proves the contrary. I need only point to the International Money Order Exchange Office at Montreal, and to the fact that whereas the work of that special department when done at Ottawa was certainly a discredit to the country, the excellence of the work now done at Montreal places Canada second to no country in point of creditable and accurate performance of Foreign Money Order business. I gathered satisfactory evidence of this in both London and Paris. The measure which I submit will have even more to recommend it hereafter, when the Department will be compelled to extend the Money Order system in the North-West. The present reluctance to incur Money Order responsibilities in that direction arises, in a great degree, from the admitted impossibility of satisfactory financial control from Ottawa.

By retaining at Ottawa the control of Money Order and Savings Bank Returns from the entire Dominion, also the issue of postage stamps, book-keeping at St. John, Victoria and Winnipeg would have absolute check in the independent records at Ottawa. There would be no money responsibility whatever at those places.

The second of the two suggestions, referred to on page 17, relates to the channel through which the Department now receives drafts for deposit on Post Office account, and embraces three recommendations:—

1st. That the present form of Draft, which involves a "Receipt, Draft, Duplicate and Triplicate," be modified in the direction of simplicity.

2nd. That postmasters at the 185 places where there are Banks used by the Government, should continue to deposit there daily as at present, that the receipt which they receive should be in the form of an accountable receipt, that (whatever its form) it should *accompany* the postmaster's cash account to the Department (*i.e.*, Ottawa, St. John, Winnipeg or Victoria) as evidence of the deposit, and that this Accountable Receipt should then be sent to the Receiver General, just as the Draft, &c., are at present.

3rd. That the postmasters of the 765 smaller offices, having no Banks on the spot, should no longer remit to the nearest Bank, a plan shown to lend itself to evasion, and all those delinquencies terminating in default, which, moreover, is the source of unceasing trouble and anxiety, but should in all cases remit their surplus cash *direct* to the Government Bank at Ottawa, St. John, Winnipeg or Victoria, as the case might be. These remittances to be in registered covers, for deposit to the credit of the Receiver General as at present. The Bank to furnish daily to the Department (Ottawa or elsewhere, as before) an abstract of all Postal remittances received, office by office, accompanied by one Accountable Receipt for the whole, and an explanatory memorandum against the names of Offices whose remittances had to be returned, in

whole or in part. The Accountable Receipt for the gross amount to be sent by the Post Office to the Receiver General, as Drafts are at present.

There exists no doubt in my mind, that the postmaster who now takes improper advantage of the fact of his official depository being beyond easy reach of Ottawa, would be quick to perceive the futility of deception when misrepresented could no longer deceive. As regards errors and discrepancies in remittances, they would speak for themselves, and enquiries, now so numerous, of postmasters and the Banks concerned, would cease.

I have said that nothing is to be gained by disturbing the present rule under which postmasters deposit Post Office Receipts directly to the credit of the Treasury (the Receiver General). I may here, however, point out the single inconvenience resulting from the present system, and again allude to the appreciable friction due to the present method of obtaining funds from the Treasury, to provide for Money Order and Savings Bank requirements, and to meet Money Order obligations abroad, and may urge the necessity for some "*modus vivendi*" being arrived at. The joint concurrence of the Auditor General and the Finance Department now necessary in order to enable the Postmaster-General to provide for obligations which he is by law, or International Convention, bound to meet punctually, involves a concerted action at times very difficult to obtain, owing to the want of close touch between those Departments and the Post Office. A partial remedy would be found in giving to some principal officer in the Post Office Department an accountable credit at the Bank of Montreal, exactly as one is given (to meet the very same objects) to every Post Office Inspector in the Dominion. In respect of the general measure for supplying postmasters with funds, little is to be learned from English practice. The geographical extent of Canada will always compel the Department to maintain some system by which funds can be placed where required, without previous requisition to Ottawa. For that reason, the present system of Inspectors' and Postmasters' Bank credits cannot well be disturbed. It should, however, be supplemented by a central credit at Ottawa.

The English method of collection of unpaid Postage is, in its entirety, inapplicable to Canada. As elsewhere stated, it might perhaps be applied to certain classes of offices, including those served by travelling Post Offices. Of the present Canadian system, it may be said that, while it falls short of absolute verification of this item, it perhaps attains as nearly to the truth as is, on the whole, possible, and what it does accomplish is done without expense. I do not forget that in the measure of the removal of all non-Money Order Offices from rank as accounting offices, is involved loss of the account now rendered by those offices, of postage on unpaid matter. This, however, could be had in another, and as satisfactory a shape in connection with the Quarterly payments of Salaries to those offices.

It now becomes necessary to refer to the manner in which, under such a reorganization of accounting methods, as has been sketched, the

Postal Revenue would be determined. All Postal Receipts, including Money Order, Savings Bank and Revenue funds, would pass into *one* account in the Finance Department. Out of this would grow two others, "Revenue" and "Savings Bank." The present Money Order account would disappear. Once a month, about the third week of the following month, the amount to be transferred to Savings Bank account would be advised to the Finance Department, as at present. In like manner once a month, perhaps at end of second month from date, the amount of Postal Revenue earned, for sale of stamps, Money Order commission, profit on Money Order exchange, as ascertained from Post Office summaries, would be communicated to the Finance Department. The transfer would involve a mere book entry, the receipts, as a matter of fact, being in the hands of the Receiver General from the outset, but held in suspense, as it were, until apportionment.

In England the Post Office Receipts and Revenue for the year are held to be those items as per the Books of the *Treasury*, and not the booked Revenue as per the Post Office accounts. For example, while the booked revenue of the Post Office, as per Post Office ledgers in 1886-87, was £8,462,567, the payments into the Exchequer were £8,452,000, *i. e.*, the sum total of the *actual transfers* to revenue during the year. This principle applies to all Imperial revenue earned by the great Revenue Departments, and is clearly illustrated in the Imperial Financial accounts (Blue Book) where also the disposal of the difference between Booked Income and Income paid into the Treasury is fully brought out.

What I said in describing the treatment in England, of certain items as "deductions from revenue," and the inconsistencies exhibited in Canadian practice in respect of similar items, will, no doubt, lead to the adoption of a fixed principle in Canada. Should British precedent be adopted, it must be borne in mind that the Post Office must then be given authority to draw on the Treasury against "Receipts" (subject to Auditor General's audit) in respect of the items decided on for treatment as "Deductions from revenue."

The general subject of "Receipts" closes naturally with a reference to audit. This can apparently go no further than it does in England; that is a test audit, accompanied by special examination of the ledgers of postmasters out of office. It will be seen, however, how much further than at present, audit could go under the proposed amalgamation of cash accounts. Whereas now the postal revenue alone,—viz., \$2,500,000, comes under review by the Auditor General, the entire Post Office receipts amounting to \$35,330,000,—would then be open for the Auditor General's examination. It must be remembered, on the other hand, that there is not in Canada that necessity for applying searching audit to "Receipts" which there may possibly be in England. In Canada the Post Office neither receives nor controls the Cash Receipts, so that audit becomes necessarily a review of Books only.

EXPENDITURE.

The first aspect under which the subject of Post Office expenditure should be examined is naturally in relation to the **Parliamentary Appropriation**. The estimates take much the same shape as the Post Office estimates in Canada have done in recent years (except that they include the salaries of what—to be understood—I may term the "Inside" service, charges in Canada estimated for, not by the Post Office but by the Finance Department as part of the vote for Civil Government) and generally speaking, go more fully into detail. For purposes of comparison I may say that the Post Office estimates in England (exclusive of inside service and telegraphs) are presented in volumes extending to 260 pages, 218 of which are devoted to the details of salaries and allowances for the 915 Post Offices on the establishment, and their sub-offices. The Canadian estimates including like details in regard to the 15 city or establishment offices, occupy 17 pages of the volume of estimates.

Turning to the Imperial expenditure, or appropriation, accounts, it will be found that the volume presented to Parliament (including the Auditor General's report) in relation to the expenditure voted in 260 pages of estimates, extends to 26 pages only, while, on the other hand, the Canadian postal estimates of 17 pages grow into a volume of detailed expenditure accounts, of 412 pages, to which may be added the Auditor General's contribution of 50 pages more. Were English methods adopted in Canada, the expenditure statements of the Post Office, of 462 pages, would then occupy no more than 2.

Parliamentary Control, and following it, Treasury and Audit supervision, are extremely rigid in matters of Post Office expenditure. I took pains to inform myself of the principles governing the usage which results in such apparently meagre expenditure accounts being presented to Parliament. There was, of course, nothing new in the information that it is when considering the *Estimates*, that Parliament has the fullest exercise of, and the only real control, but this may be emphasized as giving the keynote to the practice which prevails. The Estimates are therefore submitted to Parliament in very full detail, the various services being grouped under appropriate heads and sub-heads. The vote by Parliament is held not only to give permission to pay the services and salaries estimated for, but to be an absolute instruction to pay them, and if not paid, the amount voted must be surrendered. Parliament having voted the supplies, is satisfied when the Treasury Accounts, giving the expenditure in no greater detail than the totals of the various sub-heads, are accompanied by the Comptroller and Auditor General's certificate that the detailed votes have been applied in accordance with the wish of Parliament, and that votes not expended have been surrendered.

I think it right to place on record the above feature of British practice, which differs so much from that followed in Canada. In regard to the lengthy financial details given in Canadian Reports to Parliament, they have a value over and above the apparent object of publication, in that the work of compilation brings out in permanent and convenient

shape much that might otherwise remain in disconnected form. It is probable that, with a well considered system of record in the Accountant's Branch, the value of the Annual Report for purposes of Departmental reference, would not be what it is now, and certainly in its curtailment much expense would be saved, not only in the item of printing, but in the cost of clerical preparation.

I mentioned in a previous part of this Report, the reasons for the introduction into the British Postal Estimates, as a special sub-head, of an amount for "Losses by default, &c.," so that I need do no more here than refer to the item as one which sound practice suggests should be given a place in future Canadian Postal Estimates.

An examination of the **British Postal Estimates** discloses a practice in regard to postage of Government Departments, differing from that prevailing in Canada, where every Government Department asks Parliament (under Miscellaneous) to vote its postages*—in all, about \$10,000—and the Post Office receives the benefit in the shape of revenue. This is held in England to be illogical and contrary to sound Parliamentary finance, on two grounds:—

1. That Parliament should not be called upon to vote as expenditure in one Department, what will become revenue in another.
2. That Parliament should not be asked to vote the same amount twice over.

The first point requires no explanation. The second may be explained by illustration. For example:—Having already voted the sums said by the Post Office to be necessary for all mail conveyance, Parliament, on coming to a vote, say in the Inland Revenue Estimates, for postages (*i. e.*, for provision for carrying the correspondence of the Inland Revenue Department) would reply: "No; Parliament has already voted all that the Post Office asked for mail conveyance."

A maxim of universal application throughout the Imperial Government Departments and an enunciation, in another form, of the same principle is this: that any service which one Department can render another, falling within the range of its ordinary functions, shall be given free of charge. Thus no Government Department pays its domestic or even its foreign postage, or domestic telegrams. The Post Office sells Inland Revenue stamps for the Inland Revenue Department, and pays army pensions for the War Office, without compensation. On the other hand the Inland Revenue Department serves the Post Office by taking control of the issue of Postage stamps to postmasters.

By the amount which other Departments pay the Canadian Post Office for postage, there is clearly so much that is delusive in the Statements of Dominion Gross Revenue on the one hand and Gross Expenditure on the other.†

* Not to cover postage on purely domestic mail matter, which is carried free, but charges on matter for and from other countries.

† The payment by the Post Office of \$110,000 per annum to the Department of Railways and Canals for postal service performed by the Intercolonial Railway in like manner contributes to a delusive showing of Dominion Gross Receipts and Expenditure in the Public Accounts.

Although the British Post Office carries all official Government correspondence free, and no vote is asked for the service, Parliament is nevertheless given an opportunity once a year of expressing an opinion upon the principle, for in the Estimates is given in some detail the value of the services which the Post Office expects to perform for other Departments without charge.

Before leaving the subject of the Estimates, one more feature of British practice, and an important one, must be noticed and that is that the *whole* expenditure is submitted to Parliamentary vote. In Canada, on the contrary, Parliament is not asked to vote the salaries and allowances of country Postmasters. These services are met by Postmasters retaining the amount, say \$500,000, out of their revenue collections. These payments, therefore, Parliament has no opportunity of expressing an opinion on. But, there being many offices whose receipts are insufficient to pay the Postmasters' salaries, the deficiency has to be provided, and the amount of this deficiency only is submitted to Parliamentary vote. As it is asked for in a round sum (say \$49,000) and is merely to supplement the amount, \$500,000, which the Post Office proposes to expend without a vote, the item can hardly be said to be susceptible of intelligent Parliamentary criticism.

In Canada, moreover, while no vote is asked for compensation to Postmasters for Money Order business (now paid out of receipts) a vote is asked for like services on Savings Bank account. It will thus be seen that there exist anomalies and inconsistencies in Canadian practice.

Of the two, the British practice of asking a vote for *all* expenditure seems preferable, both as a measure of uniformity and as a matter of principle.

BOOKS IN THE LONDON DEPARTMENT BASED ON THE PARLIAMENTARY APPROPRIATION.

At the beginning of the financial year the particular branches of the Receiver and Accountant General's Department charged with Expenditure of Voted Services, prepare blank books, lettered under the respective heads and sub-heads of expenditure, and following in closest detail the various voted services. It will be sufficient to say that, containing all requisite information as to names, services, &c., these books become the basis on which issues every payment during the year, and remain the record, for one year, of payments made for each individual service.

Changes in names of individuals or in scales of pay, affecting the salaried establishment, or mail service, are recorded in these books on notification from proper authority, in convenient form.

I have referred to the fact that all expenditure is estimated for and submitted to Parliamentary vote. This will suggest (in remembering that Canadian practice is to allow postmasters of all but city offices to deduct their salaries and allowances from receipts) that if the salaries of postmasters of all classes are paid out of vote, the British method, involv-

ing, it might be supposed, a system of payment of 12,900 postmasters direct from London, must relatively be more laborious and costly than the Canadian. What the method of paying postmasters' salaries is, is really this: All payments both of postmasters, post office clerks, rural postmen, &c., are made by the postmasters of the 630 head offices, each of whom pays the sub-postmasters, &c., in his own immediate neighbourhood, and having taken their receipts either on pay sheet or separate voucher, claims the total amount in his Daily Cash Account with the Department under the head "Voted Services Paid." These services are paid for by postmasters out of Postal Receipts, the temporary advances out of "Receipts" being periodically replaced by demands on the Treasury for covering draft. This plan of paying postmasters I may at once say is inapplicable to Canada, and is possible in England only because of the large number of head (or establishment) offices, and the circumscribed area of the country.

It is the mode of paying *other services*, *i.e.*, Surveyors (Inspectors) and their staffs, mail contractors and all miscellaneous items, which constitutes the feature in English practice from which Canada has most to learn, and this feature can fortunately be applied to all services, postmasters' salaries included, alike.

I have mentioned the Books or Registers which continue for one year and are the basis for issue of all payments. In respect of mail service the Surveyors also send a Quarterly Schedule of payments to be met. In this matter the practice resembles that in force in Canada. Here, however, resemblance ceases. In Canada, a cheque on the Bank of Montreal for each separate service is prepared—a form of voucher is also filled up, *i.e.*, two documents in respect of each payment, and to these must be added an envelope to cover cheque and voucher. The cheques have necessarily to bear the signature and counter-signature of staff officers. The number of cheques issued in the Department in a year is, approximately, 25,000. This trebled represents the number of documents prepared in connection with a year's payments on voted service account. In the case of mail contractors, a fourth document, a letter of transmittal covering the cheque and voucher, is also prepared. Of these there are about 17,000 in a year.

In England all payments are made, not by cheque, but by warrant (a form somewhat of the character of the Savings Bank withdrawal cheque used in Canada, itself called a "warrant" in England). This warrant has provision at the foot for the discharge of the person receiving the amount, so that a single document, it will be observed, takes the place of at least three and in most cases four, as in Canada. Further, these warrants, not being drawn upon a Bank but on the Department itself, require no written signature. While some important ones may bear a written signature, some carry a fac-simile of the Receiver and Accountant-General's signature, while those for small sums bear a printed signature. Of the sufficiency of such warrants, when drawn upon the same Department, there can be no question. If proof

of this were necessary the fact that nearly \$7,000,000, Savings Bank withdrawals, were paid in Canada last year on warrants impressed with a fac-simile of the Superintendent's signature supplies it.* Beyond this the practice must, beyond doubt, be consistent with all needful financial checks and requirements, or it would not obtain in England. A warrant so issued is virtually payable anywhere in England. Postmasters are permitted to cash them, if they know the persons presenting them. Banks cash them, and for their own protection take the usual means of identifying the payees.

The issue of a warrant, while of course recorded, is not regarded as the making of a payment. The payment is held to be made on the day that the acquitted warrants come back to the Department. This they do in one of two ways:—

1. With postmasters' Cash Accounts, as part of their cash remittances.
2. Presented by a London banker, having been cashed by the Bank, or one of its Provincial agencies, or having been sent for collection from another Bank.

I have already explained, when on the subject of remittances from postmasters (page 12), that warrants forming portion of postmasters' remittance are at once scheduled, according to the heads and sub-heads of the service to which they relate, and that a single cheque against expenditure or voted-service account is issued to take their place.

Warrants presented by the Banks are treated in the same way, except that instead of a separate cheque being given to each Bank, a single cheque is sent to the Bank of England, with instructions to "write off" so much to the credit of the several Banks concerned. The result is the same.

The cheques so drawn in substitution for service-warrants are against the Postmaster-General's account in the Bank of England, *i.e.*, the balance of un-transferred receipts. Once a month, as already mentioned, this temporary advance from "Receipts" is replaced by a draft from the Treasury on Voted Expenditure Account.

Just as Post Office "Revenue" is held to be the receipts as per Treasury, and not the Post Office books, so "Expenditure" is held to be the expenditure as per the Treasury, not the Post Office books. Expenditure, therefore, as reported to Parliament in England, is the sum total of the later covering Treasury drafts, not of the Post Office Cheques. Thus arises a want of co-incidence in date between the Treasury and the the Post Office books and a consequent difference in "Expenditure," which has to be explained in the Imperial Expenditure accounts.

* These warrants number about 74,000 annually. The fac-simile stamp is in the custody of a senior officer, and the checks in force are such that it requires joint action on the part of four officers to issue a warrant. To withdraw a staff officer from duties of supervision for the purpose of signing from 200 to 500 warrants a day would be a waste of force, and would accomplish no check whatever. In fact, time would not permit of its being done. The warrants are not ready for signature until almost four o'clock daily, and it would be unreasonable to keep the whole staff waiting until the warrants had obtained the Superintendent's personal signature. Conditions of signature less favorable to intelligent examination could not be imagined.

I have stated that the issue, not of a warrant, but of a *Cheque*, is regarded as the official act of payment by the Post Office. It will be apparent that one or two cheques a day will cover many paid warrants. The acquitted warrants, received each day, scheduled according to voted heads of service, and accompanied by the schedule, are sent in that shape to the Comptroller and Auditor General, as vouchers for the payments made that same day by means of the one or two covering cheques.

I may say here, that this system could not possibly be carried out with the ease and simplicity which mark it, had the Post Office expenditure to be reported to Parliament in the detail now given in Canadian reports. No classification of payments (or grouping with a view to future publication) is attempted, beyond the heads or sub-heads voted in the estimates, and this, covered by the Comptroller and Auditor General's certificate, is all that Parliament asks. For mere Departmental record and reference, the registers on which the issue of the warrants is based are considered sufficient.

The Comptroller and Auditor General has no share in the initiation of payments, nor can he "reverse" expenditure. To the Treasury and Parliament only is the Postmaster General responsible for the expenditure of Parliamentary appropriation. The Auditor General merely "reviews" expenditure and reports to the Treasury and to Parliament.*

I stated on page 12, in alluding to the present Canadian practice under which Postal Receipts pass at once to the control of the Treasury (Finance Department) that the system would be found to possess marked advantages when considering **the adoption in Canada of English methods of Expenditure**. The advantages would be these, that the intervention of a Bank account and the process of covering the paid warrants daily by a cheque, as in England, could be altogether dispensed with. The same results could be accomplished by simple book entry in the ledgers of the Finance Department. The warrant system could be made to take the place of the cheque system entirely. It would be unnecessary for the Post Office Department to ask for a credit at the Bank, or to create any Bank account at all, for expenditure purposes.

Payment of voted services by *warrant* would introduce no novelty in Canadian practice. The compensation to Postmasters of Savings Bank Offices has for many years been paid by warrant, the Postmasters retaining the amounts out of "receipts;" the acquitted warrants being covered at the end of the Quarter by a single cheque against "expenditure." It is, therefore, not the principle, but its wider application and its extension to *all* voted services which is recommended now.

The warrants paid by Postmasters and transmitted in their accounts as cash, would be sent to the Auditor General daily, with a request that the total amount might be charged to "Expenditure," and credited

* Under the American system, the Postmaster General having no seat in Congress, and being independent of that body, is not entrusted with uncontrolled powers of expenditure. At Washington, therefore, postal expenditure requires a concerted initiative on the part of the Post Office and the Auditor. In this Report it is assumed that, under responsible Government, as existing in Canada, the Postmaster General is invested with a responsibility which is his alone: therefore, that audit of Post Office expenditure may not take the shape of a share in control.

to "Receipts." Warrants paid by the Banks would likewise be sent daily to the Auditor General with a request that the amounts might be re-paid to the Banks, and charged to "Expenditure" (much as repayments to Banks for advances on Money Order account are now arranged). There would be no unadjusted expenditure account between the Finance Department and the Post Office, and of course no unadjusted Bank account and no outstanding cheques. The Treasury expenditure and the Post Office expenditure would be in absolute agreement day by day.

To illustrate what would be the application of the warrant mode of payment to all voted services in Canada, including salaries of postmasters at offices of all classes, it may be said, broadly, that there would be eight classes of payments to be provided for

- Class 1. Large contractors, including Railway and Steamship Companies.
2. Ordinary mail service.
3. Inspectors and their staffs.
4. Railway mail clerks.
5. City Postmasters and their staffs.
6. Salaries and allowances of the 950 Money Order offices, or offices rendering accounts.
7. Salaries and allowances of the 6,550 non-accounting offices.
8. Miscellaneous.

Payments would be as follows:—

- Class 1. By Warrant, but being for large amounts, payable only through a Bank, the Warrant would, in practice, be deposited to the Contractor's credit at his own Bank, and be sent for collection to the Bank of Montreal, Ottawa.
2. By Warrants, sent separately to the Contractors at addresses given in Inspector's Abstracts. If for large amounts, payable only through a Bank.
3. By separate Warrants, enclosed to the Inspector.
4. By separate Warrants, enclosed to the Inspector, or direct to the officer, if resident elsewhere than at Inspector's headquarters.
5. By Pay-list (in duplicate) carrying impress of a form of Warrant, on the last page, and payable only by a Bank. The Bank would provide the money, on authority of the Warrant, and would be recouped on its presentation at Ottawa.
6. Exactly as Postmasters of the same offices are paid now, *i. e.*, by Warrant, except that the total of the Warrant would then include salary and allowance for postal service.
- 7 (a). To non-accounting offices whose revenue exceeds salary and allowances, by Warrants, which the Postmasters could either cash at the nearest Money Order Office, or use as cash when next remitting to purchase stamps.

- 7 (b). To non-accounting offices, whose salaries exceed revenue, by Warrants as above, payable at the nearest Money Order Office.
8. By Warrant, payable through a Bank or otherwise, according to amount.

It will be obvious that the payment of all Postal Expenditure by warrant instead of by cheque on the Bank of Montreal, would absorb a considerable portion of the surplus receipts in Postmasters' hands. The result of my enquiries in England (and later, in the United States) has been to strengthen an opinion I have always held, that the policy of utilising public moneys in the custody of officials of the outside service, is correct in principle, in that it diminishes ordinary risks, removes temptations, and tends to conserve honesty. To this I must add that, throughout this Report, I have kept one further point in view, viz., that the time is probably not distant when the arrangements between the Government and the Banks generally will have to be reconsidered. In the proposed measures in respect of both Receipts and Expenditure, the employment of the Banks is therefore minimized.

That such a re-adjustment of the system of Accounts, in respect of both Receipts and Expenditure, as I have sketched, would permit a redistribution of the general clerical force of the financial Branches* of the Department in the direction of economy, is evident. There would be little difficulty in framing an estimate of what, after the accounts as now kept are closed, would be the saving in clerical work and in Books and printing, under re-organization, but it would be premature to do this, until it shall have been decided to what extent re-construction of the Account system shall take place.

I mentioned on page 21 that an amalgamation of cash accounts would necessitate amendment of the Post Office Act. It must further be borne in mind that any contemplated curtailment of the Annual Report to Parliament, would also require Parliamentary sanction.

While far from desiring to exceed the prescribed scope of my Report, I nevertheless feel constrained to add that no mere system of Departmental Accounts, be it ever so skilfully devised, and no executive ability or industry on the part of officers in charge of account duties, ought to be expected to achieve the impossible, in other words be expected to protect the revenue against loss, or to check delinquencies unless supported, first,—by efficient supervision of Postmasters on the part of Inspectors, and, secondly,—by active and prompt co-operation on the part of what I may call the Executive of the Department, in such matters whether of pressing importance or of routine, as from their nature pass beyond the means of treatment at command of a mere Account Branch. I have already pointed out how much more thorough Post Office inspection would be, were there none but Money Order (or accounting) offices

* The Accountant's, Cashier's, and Money Order Branches.

to be visited. If by any further means the duties or responsibilities of Post Office Inspectors and their Assistants could be so re-adjusted as to make those officers in reality what they are in name, not only would the results manifest themselves in increased efficiency on the part of Postmasters, but closer supervision would operate as a restraint against dishonesty. As regards the second point, I must say that, unless some general rules be laid down for the prompt Departmental treatment of references from, and irregularities brought to light by, the Accounting Branches, or on the other hand a means provided by which closer contact may be had between the responsible Head of such Branch or Branches and the higher Executive, any measures of re-organization confined to the Financial Branches of the Department would be a waste of effort. What I say on this subject is merely suggestive. To say more would be to exceed my duty,—on the other hand to say less would be to furnish a report wanting in logical conclusion.

I have the honor to be, Sir,

Your most obedient servant,

J. C. STEWART,

Superintendent Money Order and Savings Bank Branches.

